

annual report 1969

AR20

**Canadian Wallpaper
Manufacturers Limited**

Canadian Wallpaper Manufacturers Limited

COMPARATIVE SUMMARY

12 months ended December 31

	1969	1968	1967	1966
Net Sales	\$34,998,066	\$32,079,399	\$24,694,239	\$19,381,448
Earnings before taxes	2,691,584	3,003,274	2,130,714	1,960,704
Earnings after taxes	1,309,907*	1,365,274	1,037,714	949,704
Working capital	6,999,490	4,953,037	4,142,236	3,778,664
Investment in property (<i>net</i>)	4,914,417	3,441,224	3,366,857	3,107,872
Shareholders' equity	10,081,931	9,237,310	8,285,623	7,609,798
Earnings per share after taxes	10.13*	10.56	8.03	7.35
Dividends paid	3.60	3.20	2.80	1.40
Equity per common share	78.00	71.47	64.11	58.89

*In 1969, earnings after taxes include an extraordinary item — realized gain on foreign exchange, of \$92,323, or 71¢ per share.

Sur demande, le secrétaire vous fera volontiers parvenir un exemplaire français du rapport annuel.

DIRECTORS

- B. S. BUMSTEAD
- *J. R. CRAIG
- P. T. DAHLE,
*President, General Paint Corporation
of Canada Limited*
- R. F. INCH,
*Managing Director,
The Wall Paper Manufacturers Limited,
London, England*
- K. C. LOGAN, Ph. D.,
*Director of Research,
Anglo-Canadian Pulp & Paper Mills Limited,
Quebec City*
- *R. C. MacGILLIVRAY, C.A.
- *J. A. MULLIN, Q.C.,
partner, Fraser & Beatty, Toronto
- *M. L. PEMBLE,
President, The Birge Company, Inc., Buffalo, N.Y.
- B. D. ROSE,
President, Acme Paper Products Co. Ltd., Toronto
- S. T. RYDER,
*Chairman, Reed Group Limited, and
Chairman, The Wall Paper Manufacturers Limited,
London, England*
- W. E. SOLES,
*President and General Manager,
Anglo-Canadian Pulp & Paper Mills Limited,
Quebec City*
- H. SUTHERLAND,
partner, Fraser & Beatty, Toronto
- *S. W. WILBUR

* Members of Executive Committee

OFFICERS

- Chairman — S. T. RYDER*
- Deputy Chairman — S. W. WILBUR*
- President — J. R. CRAIG*
- Senior Vice-President — R. C. MacGILLIVRAY, C.A.*
- Vice-President, and General Manager,
Sunworthy Division — B. S. BUMSTEAD*
- Vice-President,
Marketing — A. A. CROWELL*
- Secretary-Treasurer — K. M. CHALMERS, C.A.*

HEAD OFFICE: Two Hundred and Twenty-Two
Seventh Street, Toronto

TRANSFER AGENT & REGISTRAR: National Trust
Company, Limited Toronto - Montreal - Winnipeg

AUDITORS: Price Waterhouse & Co., Toronto

BANKERS: Canadian Imperial Bank of Commerce,
Toronto

LEGAL COUNSEL: Fraser & Beatty, Toronto

**Canadian Wallpaper
Manufacturers Limited**

REPORT OF THE DIRECTORS TO THE SHAREHOLDERS OF THE COMPANY

Your directors take pleasure in submitting the following report on the Company's operations for the year ended December 31, 1969.

SALES AND EARNINGS

Sales in 1969 amounted to \$34 998,066, an increase of \$2,918,667 or 9% over 1968.

After federal and provincial income tax provisions of \$1,474,000, net earnings from operations for the year were \$1,217,584, a decrease of \$147,690, or 11%, from the 1968 earnings of \$1,365,274.

While the wallcoverings, pigment colour and merchandising divisions maintained their growth record, the performance of the paint division was very disappointing for the reasons discussed below and this was responsible for the downturn in the earnings of the group as a whole.

During 1969 a gain on foreign exchange of \$92,323 was realized. This exchange gain resulted from the repayment by a U.S. subsidiary of loans made at the date of acquisition and shortly thereafter, when the Canadian dollar was at a premium in relation to the U.S. dollar. Repayments took place subsequent to devaluation of the Canadian dollar, with final repayment in 1969, realizing a gain of \$92,323 which has been included in the earnings statement as an extraordinary item.

Earnings per share in 1969, before the extraordinary item referred to above, amounted to \$9.42 — the corresponding amount for 1968 was \$10.56. Inclusive of the extraordinary item of \$92,323 (71¢ per share) 1969 earnings totalled \$10.13 per share.

FINANCIAL POSITION

Working capital increased by \$2,046,453 in 1969 to \$6,999,490 at the year-end. In large measure this was due to the successful negotiation of an eight year term bank loan for \$3 million, part of which was used to repay current bank borrowings. The balance of the loan is to finance construction in progress at Dominion Colour's new plant at Ajax.

Retained earnings were increased by \$844,621 during the year, and at December 31, 1969 shareholders' equity, or net worth of the Company, amounted to \$10,081,931 or \$78.00 per share compared with \$71.47 at the previous year-end.

OPERATIONS

WALLPAPER AND WALLCOVERINGS

As predicted in our last Annual Report, continued emphasis on prestige line styling enabled the Sunworthy Division again to accomplish record sales and earnings. Also contributing to this success was the decision to produce additional dry-strippable vinyl lines.

Considerable improvement in production efficiency has resulted from last year's expansion of our skilled labour force and the initiation of a second shift. The introduction of new equipment now promises more varied printing effects and techniques. All of these elements, combined with increased studio facilities and a larger design staff, should assure favourable sales and profit trends.

Growth of the Birge Company continued, with sales and pre-tax earnings remaining strong. This achievement is due in part to heavier concentration in the area of more profitable vinyl wallcoverings, where consumer acceptance is growing.

Birge has purchased gravure and flexo printing equipment which will improve production capacity and permit a more flexible approach to printing techniques.

PAINT

Paint Division total sales remained substantially level with the previous year, reflecting an industry-wide softening in trade paint sales, and an unstable industrial maintenance paint market, disrupted particularly in the west by construction halts or delays due to labour unrest.

Divisional earnings suffered a setback for a variety of reasons. Programs geared to higher sales levels, such as centralized warehousing, did not lend themselves to early cost reduction measures. The cancellation or postponement of in-hand industrial supply contracts, due to labour disputes, removed a considerable volume of business from the annual sales mix. Unexpected increases in raw material costs and shipping expenses, due to strike activity, were experienced.

Every effort is being made to bring costs into line with current sales projections to produce a normal sales and earnings performance for the Paint Division in 1970.

MERCHANDISING

Empire Wallpaper & Paint also reported record sales and earnings for the year despite a slow first half. Programs to strengthen both the wholesale and retail operations of Empire are continuing and are proving successful.

Early in the year, Empire moved its executive offices, main warehouse and Toronto distribution centre into new premises. This move to a larger and more efficient installation provides wholesale and retail operations with an excellent support facility upon which to base further expansion.

PIGMENT COLOUR

Dominion Colour turned in another successful year, again surpassing previous sales and earnings levels, despite numerous adverse factors which included a levelling off of sales to the paint industry, increases in raw material costs and limited production capacity.

A new inorganic pigment plant is under construction at Ajax, Ontario, and the new facility, scheduled for start-up in April, is expected to be fully operative by September, 1970, giving greatly expanded production capacity.

The re-organization of Dominion Colour's export sales department is underway, with the objective of increased penetration of foreign markets, and should this become practical it is expected to make a significant contribution to future sales and profits.

Rapid developments in technology continue to underline the importance of research and development. Accordingly, emphasis on this vital segment of Dominion Colour's operations remains strong.

MANAGEMENT

During 1969, three senior appointments were made to strengthen corporate management — R. C. MacGillivray, formerly Vice President of Finance and Secretary, was appointed Senior Vice President, and A. A. Crowell, formerly Director of Marketing, was appointed Vice President-Marketing. K. M. Chalmers was appointed Secretary-Treasurer of the Company.

S. W. Wilbur retired from full time service with the Company on December 31, 1969, at which time he was Deputy Chairman of the Board. Mr. Wilbur first joined the Company in 1937, and was President from 1961 to 1967. The Board appreciates the skill and judgment he has contributed over the years.

ANNUAL MEETING

The Annual Meeting of Shareholders will be held at the Head Office of the Company, 222 - 7th Street, Etobicoke, Ontario, on Thursday, the 16th day of April, at the hour of 10:30 a.m.

Your Board of Directors appreciate the continuing support of our customers and the enthusiasm and loyalty of our employees. The Board also acknowledges the co-operation of the Company's suppliers and the interest and support of our shareholders.

Submitted on behalf of the Board.

S. T. RYDER
Chairman

March 27, 1970

**Canadian Wallpaper
Manufacturers Limited**

**Canadian Wallpaper
Manufacturers Limited
and
Subsidiary Companies**

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1969
(WITH COMPARATIVE FIGURES FOR 1968)

	1969	1968
SALES AND OTHER INCOME:		
Net sales	\$34,998,066	\$32,079,399 ✓
Other income	57,590	75,377
	<u>35,055,656</u>	<u>32,154,776</u>
COSTS AND EXPENSES (note 1):		
Cost of goods sold	22,307,119	20,423,140
Selling and distribution	6,993,507	6,355,344
General and administrative	3,063,446	2,373,018
	<u>32,364,072</u>	<u>29,151,502</u>
Earnings before income taxes	2,691,584	3,003,274
INCOME TAXES:		
Current	1,426,000	1,667,110
Deferred	48,000	(29,110)
	<u>1,474,000</u>	<u>1,638,000</u>
Net earnings for the year before extraordinary item	1,217,584	1,365,274
Extraordinary item — realized gain on foreign exchange	92,323	—
Net earnings for the year	1,309,907 ✓	1,365,274 ✓
Retained earnings at beginning of year	6,588,828	5,637,141
	<u>7,898,735</u>	<u>7,002,415</u>
Dividends paid (1969 — \$3.60 per share; 1968 — \$3.20 per share)	465,286	413,587
Retained earnings at end of year	<u>\$ 7,433,449</u>	<u>\$ 6,588,828</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1969

1. <i>Costs and expenses include:</i>	1969	1968	
Depreciation and amortization	\$ 361,012	\$ 374,909	
Remuneration of directors and senior officers	273,274	191,396	
Interest on borrowed funds	484,280	325,734	
2. <i>Inventories, valued at the lower cost or net realizable value:</i>			
Raw materials and supplies	\$1,377,763	\$1,319,968	
Work in process	546,401	541,436	
Finished goods	6,899,218	5,932,773	
	<u>\$8,823,382</u>	<u>\$7,794,177</u>	
3. <i>Property, plant and equipment:</i>			
	Cost	Accumulated depreciation	Net book value
Land	\$ 283,102	\$ —	\$ 283,102
Buildings	4,077,818	2,329,462	1,748,356
Machinery and equipment	5,670,771	4,502,964	1,167,807
Leasehold improvements	167,742	101,289	66,453
Construction in progress	1,715,152	—	1,715,152
Total December 31, 1969	\$11,914,585	\$6,933,715	\$4,980,870
Total December 31, 1968	<u>\$10,168,562</u>	<u>\$6,653,399</u>	<u>\$3,515,163</u>

A subsidiary company is constructing a new plant at an estimated cost of \$2,550,000 of which approximately \$1,450,000 had been expended as at December 31, 1969.

4. Long term debt:	1969	1968
Capital Bank Loan (see below)	\$3,000,000	\$ —
6 $\frac{3}{8}$ % First Mortgage Sinking Fund Bonds of General Paint Corporation of Canada Limited (sinking fund requirement \$25,000 annually 1970-1986)	425,000	450,000
6% Mortgage Note of The Birge Company, Inc., (due \$15,000 (U.S.) semi-annually 1970-1971)	64,688	97,162
	<u>3,489,688</u>	<u>547,162</u>
Less — Instalments due in 1970, included in current liabilities	338,444	57,175
	<u>\$3,151,244</u>	<u>\$ 489,987</u>

While the bank loans are payable on demand, arrangements have been made for repayment of a capital loan, bearing interest at

ON

	1968
593	\$ 24,217
757	4,893,961
502	295,345
382	7,794,177
328	279,991
562	<u>13,287,691</u>
633	2,186,664
412	3,526,870
583	1,005,914
444	57,175
000	1,482,956
	<u>75,075</u>
072	<u>8,334,654</u>
490	4,953,037
870	3,515,163
512	123,117
302	1,302,302
000	94,000
1	<u>1</u>
815	<u>1,519,420</u>
175	9,987,620
244	489,987
000	168,000
	<u>92,323</u>
244	<u>750,310</u>
931	<u>\$ 9,237,310</u>
482	\$ 2,648,482
449	6,588,828
931	<u>\$ 9,237,310</u>

GILLIVRAY, Director

**Canadian Wallpaper
Manufacturers Limited
and
Subsidiary Companies**

**Canadian Wallpaper
Manufacturers Limited
and
Subsidiary Companies**

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

FOR THE YEAR ENDED DECEMBER 31, 1969
(WITH COMPARATIVE FIGURES FOR 1968)

	1969	1968
SOURCE OF FUNDS:		
Net earnings for the year ended December 31	\$1,309,907	\$1,365,274
Charges (credits) which did not involve the current outlay of funds —		
Depreciation and amortization	361,012	374,909
Realized gain on foreign exchange	(92,323)	—
Provision for loss on collection of long term receivable	—	129,825
Deferred income taxes	48,000	(29,110)
Funds provided from operations	1,626,596	1,840,898
Increase in long term debt (net)	2,661,257	—
Decrease in long term receivables	40,605	—
	<u>4,328,458</u>	<u>1,840,898</u>
USE OF FUNDS:		
Investment in plant and equipment (net)	1,816,719	449,347
Acquisition of licence	—	100,000
Dividends	465,286	413,587
Repayment of long term debt	—	57,494
Miscellaneous (net)	—	9,669
	<u>2,282,005</u>	<u>1,030,097</u>
Increase in working capital	2,046,453	810,801
Working capital at beginning of year	<u>4,953,037</u>	<u>4,142,236</u>
Working capital at end of year	<u>\$6,999,490</u>	<u>\$4,953,037</u>

AUDITORS' REPORT

To the Shareholders of
Canadian Wallpaper Manufacturers Limited

We have examined the consolidated statement of financial position of Canadian Wallpaper Manufacturers Limited and subsidiary companies as at December 31, 1969 and the consolidated statements of earnings and retained earnings and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1969 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
February 9, 1970.

PRICE WATERHOUSE & CO.
Chartered Accountants.

SUNWORTHY DIVISION

THE BIRGE COMPANY, INC.

CROWN DIAMOND PAINTS LIMITED

DOMINION COLOUR CORPORATION LIMITED

EMPIRE WALLPAPER & PAINT LIMITED

GENERAL PAINT CORPORATION OF CANADA LIMITED

**Canadian Wallpaper
Manufacturers Limited
and
Subsidiary Companies**

AR20

CANADIAN WALLPAPER MANUFACTURERS LIMITED

INTERIM REPORT

TO THE SHAREHOLDERS

Six Months Ended June 30, 1969

A statement of net sales, earnings and earnings per share, together with a statement of source and use of funds, for the six months ended June 30, 1969, with comparative figures for 1968, is included with this report.

Sales and Earnings

While sales volume has increased 8%, earnings show only a modest improvement over the corresponding period of last year. Earnings per share are estimated at \$5.42. This compares with \$5.39 in 1968.

Operations

The Sunworthy and Birge wallcovering divisions' performance has been outstanding. New highs in sales together with improved profit margins have combined to sustain their growth record.

Empire Wallpaper & Paint has not performed as well as expected, and to improve this position, the programs for change referred to last year end will be accelerated.

The paint divisions report sales and earnings at less than expected levels. The disappointing results in this segment of our operations are largely responsible for offsetting the gains reported in other areas. In the west the year got off to a bad start because of the unusually severe and protracted winter. In addition certain anticipated business has not materialized because of unsettled labour conditions, principally in the construction industry. The insignificant improvement in the level of business activity in Quebec has placed additional pressure on already strained margins in this market area.

Management responsibilities within the paint divisions have been re-aligned, action has been initiated to improve the sales base and prevent further erosion of margins.

Dominion Colour has maintained the impetus reported upon in our last Annual Report and first half earnings in 1969 are extremely satisfying. Construction of new manufacturing facilities in Ajax, Ontario has begun and is proceeding according to schedule.

Dividend

The directors have declared a dividend of \$1.80 per share, payable on September 19, 1969 to shareholders of record on September 5, 1969.

Outlook

It is not expected that the restraints imposed upon the economy — restriction of credit and high interest rates — should materially affect the company's results for the balance of 1969.

August 15, 1969.

J. R. CRAIG,
President.

CANADIAN WALLPAPER MANUFACTURERS LIMITED

INTERIM REPORT TO THE SHAREHOLDERS

For the six months ended June 30, 1969

(with comparative figures for 1968)

(unaudited)

\$000's

<u>1968</u>		<u>1969</u>
	Summary of Operating Results	
\$15,922	Net Sales	\$17,203
1,489	Earnings before tax	1,535
793	Income Taxes	834
696	Earnings	701
\$ 5.39	Earnings per share	\$ 5.42

Statement of Source and Use of Funds

Source of Funds		
696	Earnings for the six months	701
193	Depreciation and amortization — a charge which did not involve the current outlay of funds	206
889		907
Use of Funds		
256	Investment in Plant and Equipment (net)	312
194	Payment of dividend	233
40	Repayment of long term debt	41
(5)	Other items (net)	(2)
485		584
404	Increase in Working Capital	323
4,142	Working Capital at December 31	4,953
\$ 4,546	Working Capital at June 30	\$ 5,276